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**ADDRESS**

**ON OCCASION OF ORGANIZATION OF THE  
NATIONAL CONFERENCE OF MUTUAL  
SAVINGS BANKS**

**AT BOSTON  
APRIL 23, 1920,**

**BY**

**S. DAVIES WARFIELD**

**President, National Association of Owners of Railroad Securities  
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**NATIONAL ASSOCIATION OF OWNERS OF RAILROAD SECURITIES  
HEADQUARTERS, BALTIMORE, MD.**



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NATIONAL CONFERENCE OF  
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*Mr. Chairman and Gentlemen:*

In organizing a national body composed of the mutual savings banks of the country you have taken an important step toward securing the advantages to be had through collective action on questions affecting the mutual savings banks as a whole, not possible to be secured by individual effort or by the State organizations of your institutions. There is no class of institution quite so close to the people as the mutual savings bank and the mutual life insurance company. They reach millions of people and are performing a great public service, the benefits of which it is difficult to estimate.

These two classes of institution provide the means for educational work in respect to such matters as concern those who look to them for protection that no other class of investing institution can offer. A third of the population of the country is concerned in the success of the mutual savings banks and the mutual life insurance companies alone. These people largely constitute what is termed the public; they own the investments their mutual institutions hold for them. They come pretty near being the real owners of the railroads. How few of these people realize this. How few realize that one-fourth of the investments securing their policies of life insurance are railroad

securities. What a change would come over the so-called public if these facts could be brought home.

The benefits of an educational campaign to reach those who are vitally concerned in matters of a public nature was demonstrated by the campaign conducted by the National Association of Owners of Railroad Securities in connection with the railroad legislation enacted by Congress, now known as the Transportation Act of 1920. The question of regulation of excess earnings of railroads provided in this Act was not a popular subject to bring before the people interested. The idea seemed un-American and more or less socialistic, yet it was amply demonstrated that if our competitive transportation system is to survive something had to be done to enable the Interstate Commerce Commission to adjust railroad rates to allow the great majority of the railroads sufficient revenue for them to live. The severe criticism of the Commission in the past because the Commission failed to allow rates which were necessary to properly maintain transportation by railroad, was largely unjust. They did not have the power to bring results. As the country grew and the more populous territories produced greater revenue, the less populous territories did not afford sufficient revenue to enable the railroads in them to survive, because of inequality in the productiveness of the two classes of territory. The Supreme Court forty years ago decided that levels of rates might be established and rates adapted "to the circumstances of the different railroads." It was recognized that as a practical question you cannot make a low rate for one road and a high rate for another without sending all the business to the road giving the lower rate. But an adjustment "to the circumstances" is permissible in order to conserve transportation as a whole. In such an adjustment it was found that rates necessary to maintain the great majority of the roads would result in

earnings to some of the minority railroads in excess of a reasonable return to them. The only practicable means to accomplish the result was to provide that rates be made tentatively so that the majority of the roads could live, and divide the earnings of any individual railroad in excess of 6 per cent on the fair value of its property devoted to the public use equally between the railroad making them and a Government fund to be used in the interest of the shippers. This enabled Congress to write into the Transportation Act that the Commission should adjust rates to yield a fixed return of as nearly as may be  $5\frac{1}{2}$  per cent on the fair value of railroad property, in the aggregate, devoted to the public use, with  $\frac{1}{2}$  of 1 per cent allowable by the Commission for unproductive improvements, with the division of excess earnings mentioned. This is the fundamental provision of the Act. We thought and asked that the percentage return clause should read "not less than 6 per cent," but Congress made the return as "near as may be  $5\frac{1}{2}$  per cent" with an additional  $\frac{1}{2}$  of 1 per cent optional with the Commission. We trust the additional  $\frac{1}{2}$  of 1 per cent will be allowed. It was rather unfortunate that Congress did not give the Commission the greater latitude named.

Through the educational campaign conducted by the Association of Security Owners by the circularization of some five million pieces of literature, and the use of other means of communication with owners of railroad securities, it came to be realized that in a public service corporation such as a railroad the public has a right to know the purposes for which the money paid to it for a public service is to be used, and that the conditions that heretofore prevented the solution of the rate problem had to be met. That railroad credit could not be re-established through the former method of public rate hearings, but legislation definite in its results was necessary if the rail-



roads were to survive under private ownership. On this platform the National Association went before the public and before Congress.

It was unfortunate that the position taken by the Association was combated by a few railroad executives, who, through their Association, vigorously opposed the adoption of this method for rate making. There seemed to be a disposition not to meet the issue which the Association of Security Owners did meet. There was a disposition to avoid the unpopular method of a division of the earnings of a railroad, although it was known and fully demonstrated and admitted by representatives of the executives themselves that regulation of excess earnings was necessary for the successful adjustment of railroad rates. I will not go into the details of the year's campaign on this legislation, nor take your time in discussing the work of the Committees of the Association in respect to the standard form of railroad contract for the Government operation of the railroads. Many important provisions therein were added mainly through the efforts of the Association of Security Owners. Many of the gentlemen present are familiar with the work that was accomplished, and also with the details of the Transportation Act dealing with the method for rate adjustment and yield to the railroads. I wish, however, to dwell for a few moments on the importance to the savings banks of the United States of the work performed.

Prior to the organization of the National Association the owners of railroad securities had no means through which they could make known to legislative and regulatory bodies, as well as to the public, what they considered essential to the protection of the securities they owned, and to the credit of the railroads that issued them. It is not alone railroad securities which will be benefited through the stabilization of the credit of the railroads, but

whatever affects this great volume of securities—the greatest aggregate of securities of any class of corporation in existence, must necessarily have an important influence upon all classes of investments. Therefore all securities that are owned by the savings banks must reflect the good or bad effect of this legislation on railroad credit.

The passage of this Act does not by any means solve the problems of the railroads. The administration of the Act and the co-operation which must be given the Interstate Commerce Commission in its administration, are matters of great concern at the present time. The responsibilities thrown upon the Interstate Commerce Commission are very great, perhaps greater than have ever been placed upon any governmental agency. Upon the successful administration and liberal interpretation of this Act depends the question of whether the railroads are to remain as privately owned and operated properties, or whether they shall, perforce, be required to be taken over by the Government. Government ownership finds a very small percentage of the people of the country in its favor. Yet, failure to recognize the intention of Congress in the framing and passage of this Act may prove disastrous to the railroads and adversely affect all classes of enterprise which depend upon them for their success.

Former Senator Root has well said that the most effective means of bringing home the necessities of the situation to the millions of people who are directly or indirectly interested in railroad securities, as well as to the public, is by collective action. That the individual appeal speaking collectively to the public and to the legislative and regulatory bodies is far different than from the corporation itself which issued their securities. The Association I am here to represent this evening started upon the theory that the first consideration should be the public interest. Proper relations cannot be established until the public and

the shippers realize that it is the intention of these public service carriers to treat them fairly, and expect only what is fair and reasonable in return.

It is not practicable in a short talk to outline the purposes of the Association in standing by a condition with which it had considerable to do in the making. The Association represents the small investors of the country to a greater degree than is supposed. In this connection let me read from a speech delivered by an opponent of the railroad bill in the House of Representatives on the day the conference bill was introduced. This House member said:

“During the long hearings held by the House Committee on this legislation, covering a period of more than two months and a half, when the proponents of this guaranteed return appeared and urged its inclusion in the House bill, it received scant consideration, in spite of the able counsel who were employed to urge it upon the committee. I am sure my distinguished friend from Wisconsin, the chairman of the committee (Mr. Esch), will not contradict that statement. It was given so little serious consideration that it was not proposed by anyone in the committee, and it is doubtful whether it would have received a vote if it had been proposed.

“But there has been in existence during all the consideration of this legislation an organization whose sole object has been to foist this proposal upon the American people. While the people of the Nation have been bending their energies to solve the great problems which have come to the surface as a result of the World War, while they have their minds on other things, this organization has camped on the doorsteps of Congress,



engaging in and directing the most powerful propaganda ever undertaken in behalf of private interests, and as a result of their activities we find in this measure what I consider the most vicious and insidious departure from established principles of equality and justice ever sanctioned by a legislative body. This poverty-stricken organization has maintained in the National Capital for more than a year luxuriously appointed quarters, with high salaried agents constantly on hand to urge that legislative safeguards be afforded to them which no other class of industry or investment has ever received or requested."

This gentleman was one of the leaders of the opposition to the passage of the measure. Over sixty per cent of the savings banks represented in this room tonight are members of the Association I represent. If there is any interest that may predominate in the management of the Association it lies with the savings banks and the life insurance companies. Where does the duty of the officials of these institutions lie when the billions of railroad securities they hold for millions of people who own them are made the subject of misleading political debate. What is the interest the "American people" have in this legislation, upon whom the gentleman insinuates we were "foisting" our proposals, which he would have the public believe are unworthy.

Now, let me read from the opening remarks of Chairman Esch of the Interstate Commerce Committee of the House, one of the conferees that finally adopted the measure which was passed, who presented the conference bill to the House, and who is your distinguished guest of the evening. Mr. Esch said:

"But, gentlemen, my time is short. I shall

take up what is known as section 6. You will find it in section 422 of the pending bill. It provides for a rate of return on the valuation of the railroad property either taken as a whole or within a given district or territory. This provision was not in the House bill. Against it the House conferees stood for five or six weeks and until the compromise was finally reached. The whole basis for section 6 can be found in these words in the bill, on page 91, paragraph 5:

“(5) Inasmuch as it is impossible (without regulation and control in the interest of the commerce of the United States considered as a whole) to establish uniform rates upon competitive traffic which will adequately sustain all the carriers which are engaged in such traffic and which are indispensable to the communities to which they render the service of transportation, without enabling some of such carriers to receive a net railway operating income substantially and unreasonably in excess of a fair return upon the value of their railway property held for and used in the service of transportation, it is hereby declared that any carrier which receives such an income so in excess of a fair return shall hold such part of the excess, as hereinafter prescribed, as trustee for and shall pay it to the United States.”

Mr. Esch continued:

“The large problem that has given difficulty to the Interstate Commerce Commission and to every regulatory body heretofore has been the fixing of rates on competitive traffic which will not allow one road to earn excessive income

while another road on the same rate does not get a sufficient income. No formula has under existing law yet been discovered to meet that situation. You can meet it in two ways—by consolidation of all carriers under one system, where there would not be the problem of the weak and the strong, or under the plan suggested in section 422. The valuation of all railroad property used in the service of transportation in a given district or territory or in the country as a whole is to be made by the Commission. The commission then prescribes such level of rates as will produce, as near as may be, a  $5\frac{1}{2}$  per cent return on such valuation. In this House I have strongly contended that we should adhere to the existing standard for rate making—that is, that rates should be just and reasonable—but longer consideration has driven me to the opinion that capital will not invest in railroad securities on merely a declaration that the commission shall fix just and reasonable rates.

“Investors want something definite and fixed upon which they can reckon. The provisions of section 422 give that stability, that standard which, I trust, will encourage investment.”

Mark the difference. The leader of the opposition made insinuations for political effect. He stated that not a member of Mr. Esch's Committee was in favor of the fixed return and excess provisions at the time of the House Committee hearings. The Senate and House conferees were in conference for weeks after this. Mr. Esch, with characteristic diligence, ascertained what he believed was essential to maintain transportation as a whole, and when he and two of his House associates on the Conference

Committee made up their minds as to these essentials, in the statesmanlike presentation from which I have quoted, he performed a service you cannot fail to appreciate, and as time goes on the public and those dependent upon railroad service will attest their appreciation. The Committees of the Association believed it to be their duty to present to the Committees of Congress facts and not influence. How was Congress to know what the men in this room, representing your millions of depositors, had to say in this crisis. What the presidents of the great mutual life insurance companies, speaking for the many millions of policyholders, had to say in respect to what they thought essential to the preservation of the investments of the people who intrust them to their keeping. They believed that it was only necessary to secure the data in support of their position and present it to Representative Esch, and to Senator Cummins, Chairman of the Senate Committee on Interstate Commerce, who was also untiring in his efforts to secure constructive legislation and to whom we also owe much. These two men took into consideration this data and the facts thus submitted, and in connection with other data, information and facts they had at their command, together with their sub-committees, and later a majority of the conferees, after an investigation such as was rarely ever made in any legislative body, they constructed a bill which was presented to Congress embodying the result of their labors and their opinions in respect to the essentials necessary to maintain rail transportation for the benefit of the people as a whole, and the business interests of the country as a whole. Who has a better right to speak for the "American people" than the people themselves, and they are very generally represented through the mutual savings banks depositors and the mutual life in-

insurance companies' policyholders that are members of the Association of Security Owners.

I have called these discussions in the House to your attention for a purpose. That is, if under our form of government business enterprise shall go forward and the country develop as it should, there must be recognition of those men who without respect to their political future carry out what they believe to be the interest of the people as a whole, and are not swerved by this or that condition which might inure to their own personal or political benefit.

There were no "agents constantly on hand" as the House member I have quoted would have the public believe. Representing the Association were Hon. Elihu Root, Mr. John G. Milburn, Mr. John S. Miller, Mr. Hugh L. Bond, Jr., and Mr. Forney Johnston as Advisory Counsel. These gentlemen together with Mr. Luther M. Walter, of General Counsel, assisted in the work of the Association. Messrs. Johnston and Walter, together with myself, were the only so-called "agents" who spent considerable time in the City of Washington and who are characterized as having "camped on the doorsteps of Congress." You can be the judge of whether in your behalf and that of the other owners of railroad securities to the extent of ten billion dollars such as are included in the Association membership, which speaks for millions of interested people, your representatives were properly in Washington to assist wherever possible in supplying data and information in respect to the subject under consideration by Congress. Whatever I may have done was without compensation. Mr. Esch will tell you that during the whole course of his consideration of the measure which has become a law all that was asked was the time necessary for the presentation of facts and data, leaving for him and his associates to do what in their judgment was essential for the protection of the railroads and their owners.



Through the organization you are effecting tonight, with the ten million people represented by the mutual savings banks as depositors and therefore vitally concerned in the value of the securities which are purchased with those deposits, there is a field for educational work that would go a great ways toward stilling the unrest now sweeping this and every country as the result of the world's war. Is it not just as much the duty of the bank that holds the savings of these people to inform them on subjects close to them and to their institutions as it is to inform them through statements of the business of the bank. When those who represent public policies which the managers of these great savings institutions know to be detrimental to their depositors who intrust these institutions in some cases with their all, and such policies may strike at the foundation of our form of government, should it not be a part of the duty of those officials to keep the people they represent informed on these and other public questions affecting their interests.

Such a campaign conducted throughout the country openly and above-board by the savings banks and mutual life insurance companies would be a great Americanizing influence, and I believe we would be surprised at the short time required to put an end to the threats of destruction that have been and are continuously made.

The savings banks and life insurance companies alone own over three billion dollars of railroad securities, nearly one-sixth of the total outstanding securities of the railroads excluding inter-railroad holdings. These securities are largely held by the institutions owning them until maturity. How important is it therefore that the railroads, the public and the regulatory bodies should realize the importance of stabilizing railroad credit that these avenues of investment may be re-opened to the railroads. There is a grave question whether the railroads them-

selves realize the importance of knowing what your National Conference from time to time may determine is necessary to your continued purchases of railroad securities. They should wish to know the views of such an organization as you have just formed in connection with the many questions to be decided in the relation of the railroads to the administration of the Transportation Act, because that is to be the basis of railroad credit.

The Committees of the Association of Security Owners have extended an invitation to the Presidents and Boards of Directors of the Class I railroads that each board designate one of their number to act on a committee to meet in conference a like committee of the National Association of Owners of Railroad Securities to discuss questions of public and legislative character. It is manifest that no such committee is intended or expected to commit the directors of a railroad to any of its actions or to have any Board of Directors delegate any of its powers to this or any other body. The purpose is, of course, to confer on matters of vital concern in the present crisis. Many replies evidence a desire to co-operate, others do not give promise of a desire to accept the invitation in the spirit in which it was extended. Until there is the recognition on the part of those who operate the railroads that the owners of the railroads constitute those who have purchased their bonds or other securities, as well as their stock, the railroads will not secure the confidence and support necessary to the stabilization of their credit and their successful continuation under private ownership and operation.

We ask for the assistance and co-operation of the National Conference of Mutual Savings Banks, so auspiciously organized, in the work before us. As stated, nearly sixty per cent of the mutual savings banks of the country are now members of the National Association of Owners of Railroad Securities, we hope you will make it

unanimous. The membership of the Association includes, besides savings banks and life insurance companies, individual investors, universities, colleges, trust estates, banks, investment bankers, trust companies, fire insurance, casualty and bonding companies.

The tentative valuation by the Commission of the properties of the railroads now being made for immediate rate making and the permanent valuation now in progress under Director of Valuation, Judge Prouty, are both of concern to the owners of railroad securities. These questions are fundamental and far-reaching in their effect. Co-operation with the Commission and Judge Prouty in these matters is far better than the habit of criticism of the past.

There is important work ahead. Private ownership and operation of the railroads is only on trial. The system of railroad regulation has been revolutionized by the passage of the Transportation Act. Under its provisions the public, the shippers, the employees and the owners have been brought into interdependent relations; such relations should be better understood and extended. This can be secured only by organization, educational work and co-operation, in full recognition of the fact that the railroads perform a distinct regulated public service, widely differing from the operation of any other privately owned business which does not perform a public service.